

CITY OF OAK HARBOR
Island County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The City Should Improve Controls Over Collection Of Cash Receipts And Accounts Receivable

During our audit of cash receipts and accounts receivable we noticed the following internal control weaknesses:

- Marina:

- a. Two employees collect jointly from the city's payment drop-boxes and turn it over to the harbor master's assistant without counting the money to determine how much should be deposited with the bank. The harbor master's assistant then counts the money alone. These procedures fail to adequately safeguard money collected from the city's drop-boxes at the marina.

We recommend that the two employees responsible for collecting payments from the drop-boxes complete a form documenting amounts collected, and sign it as evidence of their count. The harbor master's assistant should compare the amount on this form to the money received to ensure the deposit is complete, and retain this record along with the daily cash receipt as evidence of a complete deposit.

- b. Five employees have keys providing access to payment collection points at the marina. Therefore, each of these employees has access to marina receipts at any time.

We recommend that city officials limit the number of employees with access to its payment collection points or control access to the keys.

- c. Currently, no one reconciles marina customer receivable accounts from the detailed ledger to the general ledger control account. Unless detailed customer receivable ledgers are reconciled to the control balance, city officials cannot ensure that all customer billings are recorded or that all payments are recorded and deposited.

We recommend that city officials periodically reconcile customer receivable ledgers to the control account in the general ledger.

We also recommend that the person responsible for this reconciliation be independent of billings and receipting.

- Public Works:

- a. The Public Works department issues permits before payment. Once given their permit, customers are instructed to pay for it at the treasurer's office. Under this arrangement, a person in receipt of their permit might simply leave without paying.

We recommend that city officials issue permits only after payment has been received.

- b. Public Works officials do not always make bank deposits in a timely manner. Customers often attach payments along with their building plans when submitting them for city approval. The department holds these moneys until the plans have been approved. Days can go by until these moneys are eventually forwarded to the treasurer's office for deposit.

Checks received in the mail are not receipted. One person opens the mail alone. For similar reasons as those described above, checks are often held for days before being deposited with the finance department.

We recommend that city officials receipt all payments upon collection, and deposit them with the finance department in a timely manner as required per RCW 43.09.240.

We also recommend that two people open the mail together. Both employees should sign a log or calculator tape of all moneys received and submit this log along with the money to the finance department as evidence of what was received. Finance department employees should retain this log as part of the cash receipt record.

- Utilities Billings:

- a. Currently, no one reconciles utilities customer receivable accounts from the detailed ledger to the general ledger control account. Unless detailed customer receivable ledgers are reconciled to the control account, city officials cannot ensure that all customer billings are recorded or that all payments are recorded and deposited.

We recommend that city officials periodically reconcile customer receivable ledgers to the control account in the general ledger.

We also recommend that the person responsible for this reconciliation be independent of billings and receipting.

- b. No one reviews the Billing Adjustments Report. Failure to review these adjustments increases the risk that unusual or irregular activity may occur and go undetected

We recommend that an employee independent of utility billing or cash receipting review the Billing Adjustments Report and follow up on unusual adjustments to ensure all are appropriate.

- c. No one reviews the utility customer account refunds. Failure to review

refund payments increases the risk that inappropriate disbursements are made and not prevented or detected.

We recommend that the finance director or another employee independent of customer billings and receipts review account refunds.

- City Hall:

- a. Only one person opens the mail. Most utility payments are received by mail. Utility revenues for 1995 approximated 35 percent of total city revenues.

We recommend that the mail be opened in the presence of two persons. Mail with payments should be recorded in a daily receipts log. This log should be signed by both employees and retained as part of the official record.

- b. Receipt stock used by city departments is not being controlled by the finance director. Most outside departments use their own stock or Redi-form receipts. These departments include the senior center, police, and fire department. Failure to control the city's receipt stock increases the risk that missing collections may go undetected.

We recommend that the finance director assume control over the ordering and distribution of official receipts.

We also recommend that the finance director monitor use of official receipt stock to ensure all correspond to money deposited or are otherwise accounted for.

- c. Five employees have access to the safe. The overnight security of undeposited moneys is therefore susceptible to a higher risk of errors and irregularities and establishing accountability in the event of a theft would be difficult.

We recommend that access to the safe be reduced to just two employees.

- d. City hall cashiers do not provide outside departments with a receipt upon collecting their deposits. In the event of a shortage, it would be difficult to determine if it had occurred at city hall or with an outside department.

We recommend that all departments be given a receipt upon deposit.

- Fire Department:

- a. Checks received in the mail are opened by one person and are not immediately receipted nor restrictively endorsed. Checks received in person are not restrictively endorsed upon receipt. Incoming payments that are not immediately receipted, or restrictively endorsed, are susceptible to a higher risk of theft.

We recommend that two people open the mail together. Both

employees should receipt or log the money from the mail. Receipts or logs should be signed by both employees. If a log is used, it should be submitted to the finance department along with the money as evidence of what was collected, and retained as part of the official record.

We also recommend that the fire department receipt all payments and restrictively endorse all checks upon collection.

- b. At the fire department, one person is responsible for preparing the billings, receipting incoming mail, reviewing aged accounts, preparing deposits, and taking deposits to the finance department. Also, pre-printed official customer invoice stock is not used. Failure to segregate these functions and to use official city invoices increases the city's risk of errors and irregularities.

We recommend that the fire department use prenumbered, carbon copied invoice forms.

We also recommend that the finance director assume responsibility for the ordering and control over invoice stock.

We further recommend that these preprinted invoice forms show city hall as the payment remittance address.

Lastly, we recommend that all deposits be reviewed for completeness by an independent person.

- c. The fire department deposits with the finance department only a few times each month. Failure to deposit moneys in a timely manner increases the risk of errors and irregularities.

We recommend that the fire department deposit their collections with the finance department daily as required by Chapter 43.09.240 RCW.

2. City Officials Should Improve Internal Controls Over Fixed Assets

Our review of the city's fixed assets revealed the following weaknesses in internal controls:

- a. The city does not maintain a detailed asset ledger for the general fixed asset account group.
- b. City officials do not take a physical inventory of the city's assets on a regular basis.

As a result of the absence of a fixed asset ledger for the general fixed asset account group, we were unable to apply audit procedures to verify the validity of these fixed asset balances. Consequently, we consider this condition to be a material weakness in internal control for financial reporting purposes.

This condition was reported in our last three audit reports.

We again recommend that city officials:

- a. Establish and maintain a detailed fixed asset subsidiary ledger for the general fixed asset account group. All additions and retirements of fixed assets should be recorded in this ledger as they occur. The ledger should be reconciled to the general ledger control account in a timely manner.
- b. Perform a comprehensive annual physical inventory of fixed assets, including land, buildings and improvements, and equipment. Any differences between the physical inventory, the fixed assets subsidiary ledger, and the general ledger accounts should be resolved.